

## ***The Student Loan Interest Elimination Act***

### **Eliminating Interest Rates**

The *Student Loan Interest Elimination Act*, led by Rep. Joe Courtney (D-CT) and Senator Peter Welch (D-VT), would refinance the interest rate of all existing federal student loans to zero percent and cap interest rates for future borrowers. The interest rates for future student loan borrowers will be based on a sliding scale determined by financial need (with the vast majority receiving a zero percent interest rate and no student getting an interest rate above 4 percent). This sliding scale will disincentivize students from taking out loans that they do not need.

### **Saving Taxpayer Dollars**

This legislation includes a pay-for to offset the cost of eliminating interest, ultimately saving taxpayer dollars.

Currently, student loan interest is used to pay for the costs of operating the federal student loan program. Under this legislation, the Department of Education would create a Trust Fund to offset the elimination of interest. Student loan borrowers will make payments on their principal balance and these funds will be put into the Trust Fund.

The Trustees overseeing this fund would invest payments from student loan borrowers into a variety of bonds, including municipal bonds and Treasury bonds. The returns on those investments would fund the costs of operating the student loan program – saving taxpayers from fronting the bill while saving borrowers from higher interest rates and student loan interest capitalization.

The Trust Fund model mirrors other successful federal programs. For example, the Federal Railroad Retirement Board, which was created by Congress in 2001 to pay federal railroad retirement benefits in a sustainable manner, has successfully supported retirees for the past 21 years by investing railroad employee and employer payroll taxes in a Trust Fund. The *Student Loan Interest Elimination Act* will provide that same long-term support for student loan borrowers.

### **Lowering the Cost of College and Improving Learning Outcomes**

In the *Student Loan Interest Elimination Act*, any additional revenue from the Trust Fund that is not needed to support the costs of running the federal student loan program would be used to increase the value of Pell Grants and provide competitive grants to support college completion and retention programs at institutions of higher education.

Only universities that have not raised tuition by an average of two percent over the last three years would be eligible to receive these competitive grants. Preventing runaway college inflation is key to long-term higher education affordability, and this bill ensures that federal funds are not contributing to higher college costs.